CITY OF ATLANTA

55 TRINITY AVE, S.W
ATLANTA, GEORGIA 30335-0300

The Honorable Lisa Borders
Members of City Council
Atlanta City Council
55 Trinity Avenue, S.W.
Atlanta, Ga. 30303

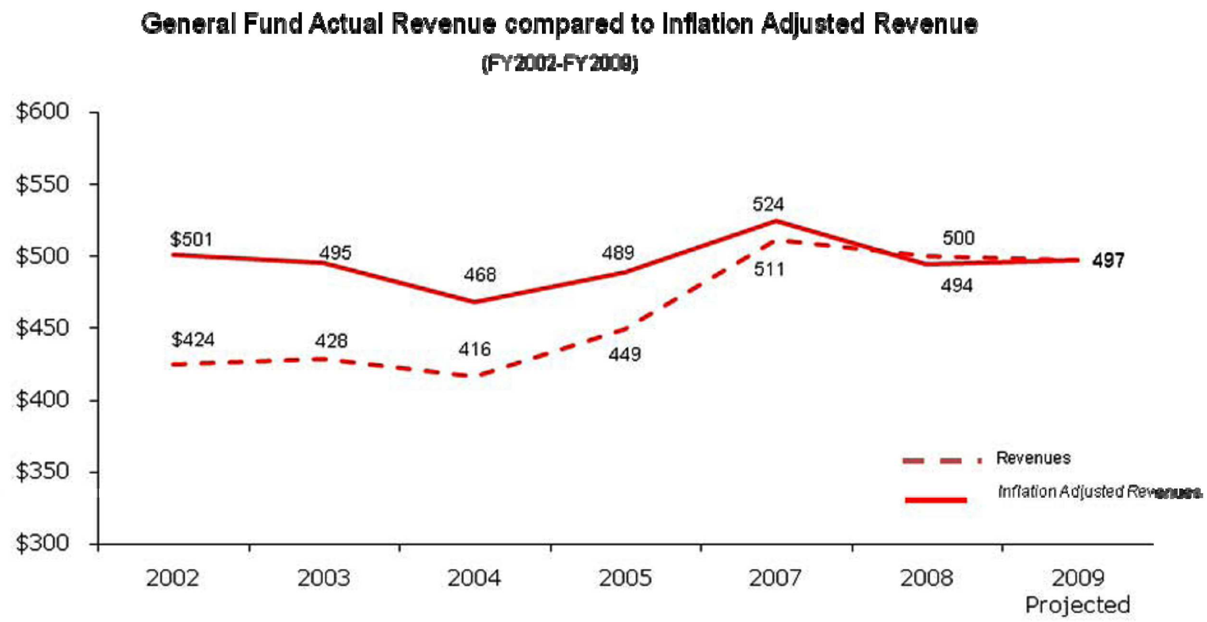
Dear President Borders and Members of City Council:

This letter addresses the challenges we are faced with in the City's General Fund and recommendations for the 2010 budget. We are at a critical turning point for the City of Atlanta. The City faces a significant structural gap between its revenues and costs. Despite continued cost reductions, this gap exists because of two fundamental issues: 1) Decreasing Revenues 2) Increasing Pension Liabilities.

We must take swift and prudent action to deal with this structural gap and its true root causes. In this letter, I provide key facts and recommendations to help the reader understand the City's financial position and I present a strategy for remedying the City's financial position. Core to this strategy is rebalancing the millage rate and restructuring the City's pension program.

Revenues

The City of Atlanta is definitely being impacted by the economic challenges of the last year. However, the economic downturn is not the only reason for concern. Surprisingly, the City has had relatively flat revenue, except for the period of 2005-2007, while the population has grown by 25%. The primary reason for this is that underlying tax and service rates have not kept appropriate pace with population growth.



Note: 2006 was a half year. 2006 numbers not included in order to highlight trends.
Source: United States Department of Labor - Bureau of Labor Statistics, Consumer Price Index (CPI) Inflation Calculator as of 4/24/2009

As the chart illustrates, even in times of economic prosperity the City's revenues do not increase significantly. A further issue is inflation. When this is included, the slightly increasing trend of revenues becomes almost completely flat. For example, revenues of $424 million in 2002 are equivalent to $501 million when adjusted for inflation to 2009 dollars. A full seven years later, the City expects to collect $497 million in revenues. This is a decrease of 4 million dollars (-0.8%) when inflation is included. This means that when inflation is included, despite significant population growth, the City's revenues in 2009 are less than what they were in 2002.

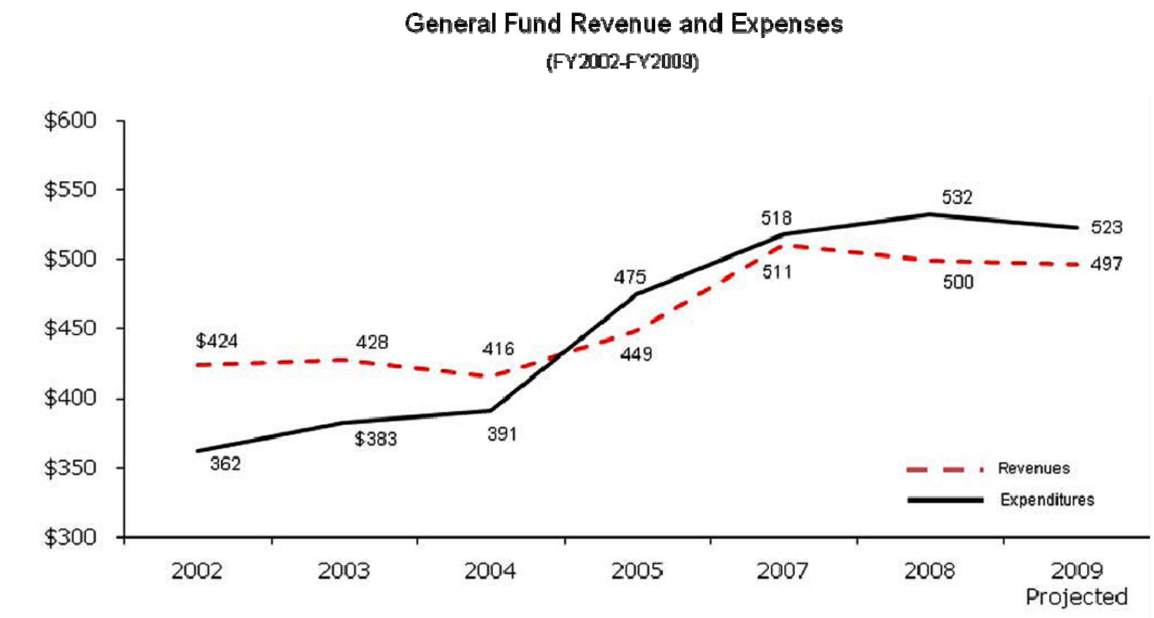
This same trend occurs when one analyzes individual revenue components. For example, in 2002 the City collected $140 million in property taxes and it expects to collect $144 million in fiscal year 2009. These 2002 property tax collections are the equivalent to $166 million in inflation adjusted dollars. When one accounts for inflation, property tax collections have actually fallen by $22M (-13%) in seven years.

For fiscal year 2010 (FY10), we have realistically and conservatively estimated our expected revenues. We have worked with the Selig Center for Economic Growth at the University of Georgia in developing revenue forecasts for the City. The highlight is that we expect the economic slowdown to continue to impact the City's revenues significantly in FY10. If no millage adjustments are made, our baseline forecast is $485 million in total revenues for FY10. This is represents a 3% decrease from inflation adjusted 2002 revenues of 501 million. Further detail on revenues can be found in the Revenue Overview section.

Costs

In the last seven years, the City has improved efficiency, made investments in public safety, and has added services. As we started FY09, the City's adopted budget was $570 million. Throughout this year we have proactively monitored and taken action to reduce spending as it became apparent in our forecasts that revenues would come up short. In fact, $50M in expenses have been eliminated since the start of this fiscal year. The City is at the point of where further cost reduction means eliminating critical services that are provided to its citizens.

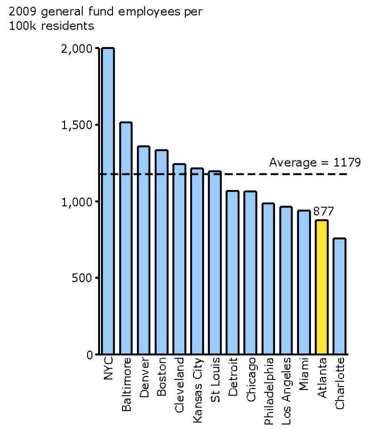
This chart layers in the City's expenses over the revenues. The structural gap becomes immediately clear. In recent years, costs are decreasing but revenues are also decreasing.

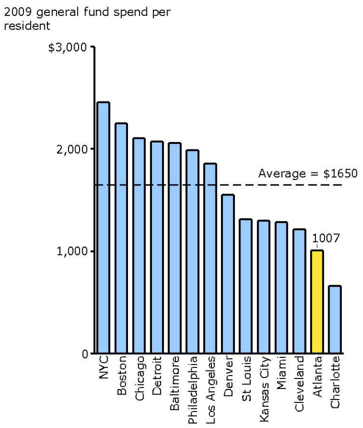


Note: 2006 was a half year. 2006 numbers not included in order to highlight trends.

Since 2005, the bottom line is that the City has not been able to generate sufficient revenues to cover expenses and it has been using its reserves to cover expenses. The City needs to not only have sufficient revenues to cover expenses but must also build up its reserves. An appropriate millage rate is an essential first step.

One can and should ask if the City can reduce costs further. The fact is that the City is doing more now with fewer resources. The efficiency of service delivery is a key focus of mine. Data from Bain & Company prove out this point. We have established peer cities that we periodically benchmark our performance against. Two key measures of efficiency are the number of employees per 100,000 residents and spending per resident.





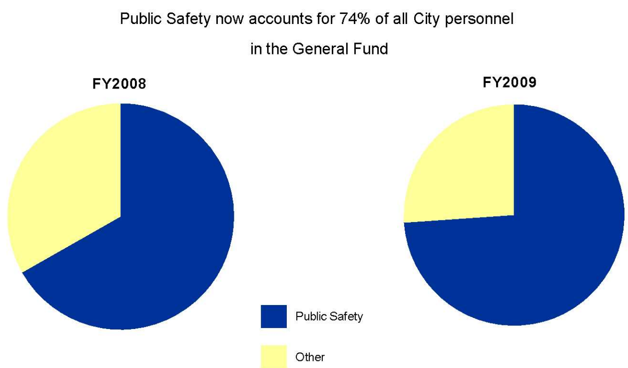
Source: Bain analysis, respective cities FY2009 budgets, US Census Bureau, Office of the CFO

In terms of employee counts, for 2009, the City had 877 general fund employees for every 100,000 City residents. The average of our peer cities is 1,179. This means that compared to the average peer city, we have 300 fewer employees for every 100,000 residents.

For 2009, these peer cities spent an average of $1,650 per resident; while the City of Atlanta spent $1,007. In fact, we have fewer employees and spend less per resident than any other peer on the list besides Charlotte.

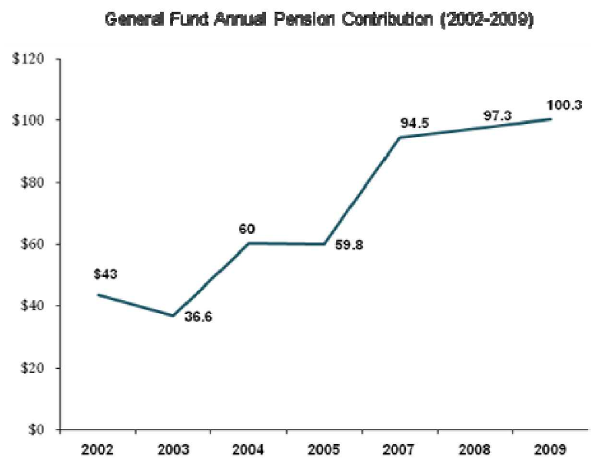
This information does not mean that the City is operating at perfect efficiency, but what it does mean is there is far less opportunity to cut costs without significant decreases to services provided.

Further, public safety is a critical service provided by the City. It may surprise some that 74% of our personnel are focused on public safety.



This has been a primary area of investment including both personnel and infrastructure. The bottom line here is that it is has become difficult to achieve further, significant cost reductions without impacting public safety.

The City's largest cost issue is the same one that is impacting many private companies. Pension costs are significant and increasing. In 2009, the City expects to pay $100M for pension costs.



In fact, the $57M increase in pension costs since 2002 largely accounts for the structural gap between revenues and costs. The City has engaged its pension actuaries to assist in examining this issue and is proposing to lengthen the amortization period of its unfunded pension obligations as allowed by the Governmental Accounting Standards Board. However, these changes will not be sufficient to bridge the gap between revenues and expenses. Therefore, we must accept and remedy the pension plan's role in the structural gap. It will not go away on its own.

Recommendations

To effectively deal with the City's current and long-term structural gap, we must all unite and take immediate action on the critical few issues versus the many lesser ones. Both short and long-term actions are required. Below are my recommendations:

Short Term / FY10:

Revenues

- An appropriate millage increase is needed to allow revenues to grow at a rate consistent with the growth of the City.
- Fee levels should be continually reviewed and revised to reflect changes in the costs to deliver.
- New revenue streams need to be pursued.

Costs

- Pension costs need to be controlled
  - Approve revising the amortization period of the unfunded pension obligation.
  - Eliminate the 1% City voluntary contribution to pension plans.
  - Review the City's three pension plans periodically, making structural adjustments as necessary.
- Efficiency efforts need to be continued
  - Re-examine the businesses the City is in.
  - Pursue outsourcing where it makes sense.
  - Redesign and streamline processes.
  - Make technology investments where there is critical need and a justified business case.
  - Track and monitor efficiency metrics.

Long-Term:

- Structure for proactive revenue growth. The City needs to promote growth to be healthy financially and capture that growth in its tax base.
- Invest in economic development and infrastructure.
- Continually review and improve operational efficiency.
- Plan for and set aside funds every year to build the City's reserve position.
- Establish capital recovery for aging infrastructure and vehicular fleets.

Long-term, it is also critical that the City build a reserve of at least $100 million in its General Fund. We must also eliminate cumulative deficits on our balance sheet where these are present (Capital Finance Fund, E911, Underground Atlanta, Solid Waste). These actions will restore the City's credit ratings as well as the confidence of residents and businesses in the overall financial position of the City.

The FY10 Budget in Brief

The FY10 budget proposed in this document is balanced at $541 million for the General Fund. It incorporates the critical revenue and cost recommendations listed above. This budget removes the current 10% personnel furlough that limits the City's service delivery. This will increase public safety. It also improves the City's financial position and reserves. It does reflect proactive action on the City's structural issues through an increase in the millage rate. This will allow the City's revenues to be better aligned with the growth of the City. The bottom line is that this is necessary for the City's survival.

Now is the time for actions that address the root causes of the City's structural gap. The primary drivers are not hidden from view. Decreasing revenues and increasing pension liabilities are the two challenges we must unite around with impactful solutions.

Sincerely,

James W. Glass

James W. Glass
Chief Financial Officer